

CONDUCTING AN AUDIT

The technical definition of the term “audit” is “the formal or official examination and verification of accounts.” Most Phi Mu Alpha Sinfonia chapters will not find it necessary to engage in such an involved process as an independent audit. However, it is important that the chapter’s financial records be examined at least once each year. Such an examination is for the benefit of the treasurer as well as the chapter, since it is much better to catch those inevitable human errors in arithmetic or recording early – before the errors are compounded.

A separate audit committee should be appointed to conduct the audit. Members can include some members of the finance committee and the faculty advisor but should NOT include the treasurer. However, the treasurer should make himself available to answer any questions from the audit committee. Records that will be needed are the chapter checkbook, journal, cash box, ledger, receipt book, and bank statements for the year. In addition, the current files of bills issued, bills paid, statements from the headquarters, and savings account statements should be available. Put simply, the purpose of this audit will be to check arithmetic and to verify that proper records have been kept.

DOCUMENTS NEEDED FOR A CHAPTER AUDIT

Gather the following documents when preparing to do the chapter audit:

Chapter Ledger	Checkbook
Individual Accounts Journal	Receipt book
Returned checks/slips (if applicable)	Disbursement Vouchers
Receipts	Bank Statements
Treasurer Reports	Cashboxes and any related documentation

AUDIT PROCEDURES

1. **Check the arithmetic in the ledger, checkbook and journal.** Take a calculator and run through the books to check for simple math errors. Any errors should be notated.
2. **Reconcile the ledger/checkbook with the bank statements.** First, the ledger and checkbook register really serve the same function but the ledger contains much more detail than the register. Reconcile the ledger with the bank statement at four different periods (beginning, November, March, and end). The November and March periods usually have the largest amount of cash flow. See page 5-6 of the “Guide to Money Management” for specific instructions on how to reconcile and balance the account.
3. **Analyze the ledger and journal for appropriate level of detail.** Take a look at the entries in the ledger. All should be dated, have the amounts, and have a balance line. Deposits should include further detail on what made up the deposit. Example:

October 20, 2003	Deposit (Dues Brother A, Brother B, etc.)	\$193.50
	\$193.50	

The ledger should also include the budget category for all expenditures. The journal needs to record the form of payment received from members for their dues (cash, CC, check #).

4. **Do a deposit audit for each semester.** A deposit audit is a quick check to see if money received was deposited into the chapter account. It is only a rough estimate but can illustrate a potential problem in the chapter account. Add up the total amount of dues received via cash or check for the semester. Then check this amount with the deposits (marked as dues) for the semester. The numbers should be fairly close. Chapters should also get out of the habit of crediting a member's account when they purchase things on behalf of the chapter. A check should be cut for this in order to keep the paper trail intact. Also, if the check cut for dues is significantly higher than the amount collected, this could be a signal of a chapter carrying its members – something that should be stopped.
5. **Verify dues payments with the receipt book.** There should be a receipt for every dues payment listed in the journal.
6. **Verify invoices or receipts submitted for every check issued.** There should be documentation for every disbursement of chapter funds. Preferably, a disbursement voucher was filled out in advance and the purchase receipt was attached to it.
7. **Examine returned checks for proper endorsements and other items.** Make sure all checks are accounted for. Many banks no longer return the checks for accounts but if they do check for two signatures. If you see a check to “Bob’s Beer House”, it may also warrant some additional questions.
8. **If the chapter has a petty cash account, verify and balance it.** It is highly discouraged for chapters to hold onto cash for any reason. Their activities really do not require the liquidity of a petty cash account unless they are in the middle of a fundraiser that requires them to make change. The account should be for a set \$ amount (no more than \$100) and the cash box should have a combination of money and receipts totaling that amount. Anything over should have been deposited as revenue from the fundraiser.
9. **Check the treasurer reports for accurate information.** Rather than just a bank balance, the treasurer report should list outstanding obligations and anticipated expenses. This prevents a chapter member from thinking that the chapter has more money available for other projects than it actually does.
10. Review any other financial policies or accounts. If the chapter has a payment plan policy, make sure it doesn't result in “carrying” members. If the chapter has a fine system, how are they tracked and assessed (invoices?). How are they doing with their budget? Is there a policy in place to control expenditures? If the chapter has any kind of investment account, check to make sure it can be accessed by current officers. In addition, make sure there is a procedure in place to transfer all accounts when new officers are elected.

The results of the audit should be written up and presented to the chapter, the faculty advisor, and the province governor. It should be filed with the chapters other financial documents. In addition to encouraging a yearly audit, all chapter members should be aware of how their funds are being handled and should request changes in procedures if they feel the treasurer is not doing what he should. All chapter books and records should be available for any chapter member to review at any time. The treasurer should realize that the money he handles is not his, and that he has a responsibility to the members of the chapter to keep all transactions current. The treasurer will be assured the confidence and support of the chapter if he does not try to keep money matters secret!